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UNCLAS SECTION 01 OF 02 SINGAPORE 002077

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E.O. 12356: N/A
TAGS: ECON ETRD EINV EFIN KTDB EAIR SN IN
SUBJECT: SINGAPORE AND INDIA SIGN COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT (CECA)

REF: 04 SINGAPORE 3294

¶1. Summary. The Comprehensive Economic Cooperation Agreement (CECA) signed June 29 in New Delhi by Indian Prime Minister Manmohan Singh and Singapore Prime Minister Lee Hsien Loong solidifies a growing trade relationship between India and Singapore. This is India's first free trade agreement that goes beyond trade in goods, and one that fosters Singapore's ambition to serve as India's gateway to the region's economies, especially ASEAN. The CECA addresses trade in goods and services, investment, mutual recognition of professions as well as enhancements to the bilateral double taxation avoidance agreement and the air services agreement. U.S. companies stand to gain in sectors such as electronics and pharmaceuticals. The full text of the agreement, which comes into effect August 1, 2005, can be viewed at:

. End Summary

CECA - Key features

¶2. Trade in goods:

-- Effective August 1, Singapore will eliminate all duties on goods (40% local content) made in India, except for tobacco and cars.

-- India will reduce or eliminate tariffs on approximately 75% of Singapore's exports (40% local content) within five years. Singapore industries that benefit include electronics, instrumentation, pharmaceuticals and plastics.

¶3. Trade in services:

-- Singapore's three largest banks -- DBS Group Holdings, United Overseas Bank (UOB) and Oversea-Chinese Banking Corp. (OCBC) -- will be allowed to operate branches in India as wholly owned subsidiaries, on par with Indian banks. Alternatively, as foreign banks, they can open a combined total of 15 branches over four years. Indian banks may apply for wholesale bank licenses in Singapore and up to three qualifying full bank licenses.

-- Indian-owned or controlled funds can invest an additional US$250 million in equities and instruments listed on the Singapore Exchange, in addition to the Indian government's US$1 billion cap that they can already invest abroad.

-- Professional bodies in both countries -- accounting and auditing, architecture, medical doctors, dental and nursing services -- will conclude agreements within a year recognizing their members' respective educational and professional qualifications.

¶4. Investments:

-- The Singapore government's two investment arms, Temasek Holdings and Government of Singapore Investment Corporation (GIC), can each acquire up to 10% of an Indian listed company. Previously, India did not recognize Temasek and GIC as distinct entities, and restricted them to a combined cap of 10% on investment in individual Indian companies.

¶5. Enhanced Double Taxation Agreement (DTA):

-- Singapore and India have agreed to revise their existing DTA, signed in 1994, to effectively grant Singapore similar status to Mauritius, whose companies can invest in India without paying capital gains tax (Singapore has no capital gains tax). Note: Despite changes in the DTA to facilitate information-sharing in the hope of reducing tax fraud, restrictions like those in Singapore's other DTAs limit the information-sharing's contribution to effective law enforcement. End note.

¶6. Air Services:

-- Both Singapore and India have committed to explore further aviation-related liberalization through their bilateral Air Services Agreement, and to an open skies

agreement for charter flights.

Growing Trade and Investment Ties Underpin the CECA
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¶7. According to Singapore government statistics, two-way trade between Singapore and India rose nearly 50% in 2004 to US$7.2 billion or roughly half of total India-ASEAN trade. Singapore runs consistent trade surpluses with India (US$1.4 billion in 2004); its top export items are overwhelmingly high-tech related. Cumulative two-way trade for the first five months of 2005 increased 45% over the same period in 2004 to US$4.0 billion, the fastest rate among Singapore's top trading partners, including China. India is Singapore's 14th largest trading partner, and is expected to be among its ten largest trading partners by 2006. According to OECD, India received US$5.3 billion in FDI in 2004; Singapore has become one of its significant foreign investors, with Temasek Holdings alone estimated to account for nearly US$1.5 billion. Temasek has invested in banks, pharmaceutical manufacturers, a hospital chain, and a major rice exporter. Government-linked SingTel has also made large investments in the telecom sector. PSA and SembCorp, among others, have concentrated on key infrastructure projects at airports and ports.

Opportunities for U.S. Companies

¶8. U.S. companies that are locally incorporated subsidiaries should be accorded the same treatment under the CECA as Singapore companies. U.S. companies in general stand to gain from tariff reductions in sectors such as consumer electronics and pharmaceuticals. This is not the case for the petrochemicals sector, however, which India managed to keep outside the scope of tariff concessions, citing competitive concerns for what it considers to be one of its key industries. Other products not covered by the CECA include steel, satellite receivers, motor vehicle engines, cosmetics, and tobacco and cigarettes.

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